FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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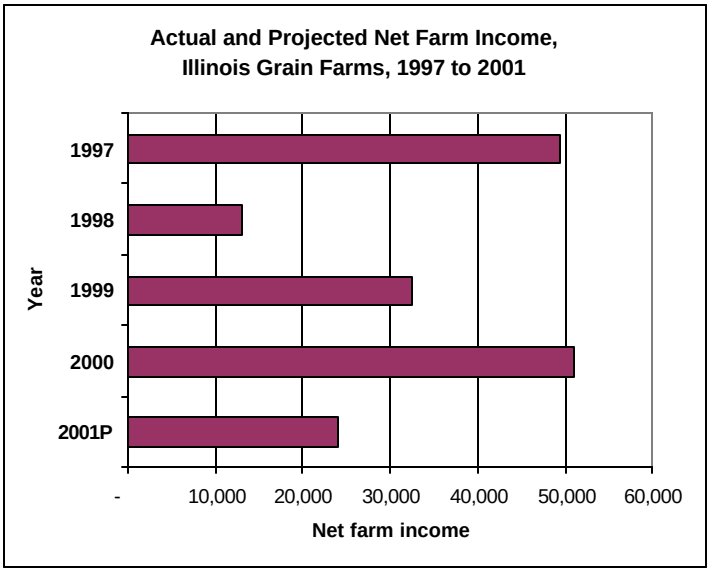
NET INCOMES ON GRAIN FARMS PROJECTED DOWN IN 2001

The Illinois Agricultural Statistical Service (IASS) released their first estimates of 2001 yields for Illinois Crop Reporting Districts (see http://www.agr.state.il.us/agstats/releases/crop.htm). These yields, a $2.10 corn price, a $4.95 soybean price, and an overall 2.69 percent increase in operating expenses are used to project 2001 net farm incomes for 1,025 Illinois grain farms.



For these 1,025 farms, our projections indicate that 2001 net farm income will average $23,899 per farm, down by $27,231 from the 2000 income of $51,130. Projected 2001 income is below the average income for the last four years of $36,503. Since 1995, net farm income has been lower only in 1998, when net farm income averaged $13,502 per farm.

Factors Causing Reduced Income

The three largest factors contributing to the reduction in incomes between 2000 and 2001 are:

1. Lower corn yields. IASS project 2001 corn yields to average 146 bushels for Illinois, down 5 bushels from the 2000 average yield of 151 bushels. Three districts have higher projected yields (Northwest, East, and East Southeast) while the remaining districts have lower yields. Soybeans yields are projected to average 44 bushels in Illinois, the same yield as in 2000. The Northwest, East, and Southwest districts have higher projected yields in 2001. Having 2000 yields in 2001 would increase our projected average income by about $3,300 per farm.

2. Crop price reductions from inventory values. Inventory held at the end of the 2000 was valued at $1.95 per bushel for corn and $4.95 for soybeans given that a Loan Deficiency Payment (LDP) had been taken on the grain. Net farm income in 2000 reflected "revenue" coming from crop inventory held at the end of 2000. Crop prices declined between January 1, 2000 and the time when many farmers sold the 2000 crop. We estimate a $.05 per bushel loss on corn and $.45 per bushel loss on soybeans on 65 percent of the production in 2000. These losses reduce 2001 income by about $5,000.

3. Government payment reductions. Agricultural Marketing and Transition Act (AMTA) payments decrease in 2001. Corn payment rate goes from $.334 per bu. in 2000 to $.269 in 2001. Wheat rates move from $.588 per bu. to $.474. This reduction in rates reduces average income by $2,400. Market Loss Assistance (MLA) payments will be reduced by 85 percent in 2001, decreasing 2001 average income by $2,000. LDPs received during 2001 likely will be lower than in 2000 due to higher commodity prices in 2001.

Market Loss Assistance Program

The U.S. Congress passed legislation providing emergency payments for farmers in 2001. Total budget outlays for the 2001 program will be 85 percent of previous years' payments. We assumed that this reduction reduces MLA payments for corn and wheat by 15 percent. This causes the corn payment rate to go from $.363 per bushel in 2000 to $.309 per bushel in 2001. The wheat rate goes from $.637 per bushel in 2000 to $.541 in 2001. Even with rate reductions, the 2001 payments add $11,598 to average net farm income in 2001.

Accuracy of Projections

Actual average income will vary from these projections. Most of the variation will result from changes in yields and prices:

Corn yield: A one bushel change in corn yield changes average income by $669.
Soybean yield: A one bushel change in soybean yield changes average income by $1,652.
Corn price: A $.05 change in corn price changes average income by $2,376.
Soybean price: A soybean price increase does not increase income until prices reach the loan rate.

The price increase in late 2000 illustrates the large impacts price changes can have on income projections. In October, cash soybean prices were in the $4.60 range and we projected soybean revenue using the $5.45 loan rate. Many farmers took LDPs in October receiving about an $.80 per bu. LDP. Soybean price then rose to the $4.90 range. If a farmer received an $.80 LDP and either sold grain for $4.95 in December or valued it in inventory at $4.95, the soybean bushel would have generated $5.75 of revenue. In October, the $.30 revenue above the loan rate was not included in income projections. At this point in 2001, price increases or decreases like what happened in 2000 are impossible to forecast.

Summary

There will be considerable variability in income across farms. This year, as in all years, yields will vary tremendously in small geographical areas. Overall, however, our first projections indicate less income in 2001 than in 2000. Net income forecasts will be updated as IASS release additional 2001 yield estimates.

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